

## SENATE FISCAL AGENCY MEMORANDUM

**DATE:** July 17, 2006  
**TO:** Members of the Senate  
**FROM:** Gary S. Olson, Director  
**RE:** FY 2006-07 Budget Agreements

On Thursday, June 29, 2006, Governor Granholm and the Republican and Democratic Leadership of the House of Representatives and the Senate reached agreement on the outline of an overall agreement on the FY 2006-07 State budget. This budget agreement included detailed revenue assumptions and General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) appropriation targets. The agreement also included the details of a FY 2005-06 supplemental appropriation bill. This memorandum provides an outline of the revenue and appropriation assumptions contained in the FY 2006-07 budget agreement and the estimated year-end balances in the GF/GP and SAF budgets.

### Year-End Balance Estimates

Table 1 provides a summary of the FY 2006-07 GF/GP assumptions of revenue, expenditures and year-end balances contained in the budget agreement. Total GF/GP revenue will equal \$9.22 billion, including \$8.43 billion of consensus revenue estimated at the May 17, 2006, meeting of the Consensus Revenue Estimating Conference. Total GF/GP appropriations will equal \$9.22 billion leaving a projected FY 2006-07 GF/GP year-end balance of \$0.3 million. Table 2 provides a summary of the FY 2006-07 SAF assumptions of revenue, expenditures and year-end balances in the budget agreement. Total SAF revenue will equal \$13.09 billion, including \$11.55 billion of consensus revenue estimated at the May 17, 2006, meeting of the Consensus Revenue Estimating Conference. Total SAF appropriations will equal \$13.09 billion leaving a projected FY 2006-07 SAF year-end balance of \$0.1 million.

### Revenue Assumptions

In addition to the consensus revenue agreed to at the May 17, 2006, meeting of the Consensus Revenue Estimating Conference, the budget agreement contains numerous other revenue assumptions. These revenue assumptions include the following:

**Beginning Balance Carried Forward:** The budget agreement for the GF/GP and the SAF budgets assumes surplus revenue carried forward from FY 2005-06. The beginning balance carried forward in the GF/GP budget is \$109.7 million and the beginning balance carried forward in the SAF budget is \$93.8 million.

**Tax Increases:** The budget agreement is developed based on the assumption of no new revenue from general tax increases.

**Fee Increases:** The budget agreement is developed based on the assumption of no new revenue from fee increases.

**Revenue Sharing Adjustments:** The budget agreement includes \$585.0 million of GF/GP revenue from the assumption that the overall level of revenue sharing payments to cities, villages, and townships will be frozen in FY 2006-07 at the levels appropriated in FY 2005-06. Counties will not receive revenue sharing payments in FY 2006-07 and would offset this loss of revenue from reserve funds resulting from changes in the timing of county property tax collections instituted in the summer of 2005.

**Pharmaceutical Tax Credit:** The budget agreement includes \$10.0 million of GF/GP revenue from the nonuse of a single business tax pharmaceutical tax credit.

**Land Sales:** The budget agreement includes \$28.0 million of GF/GP revenue from the sale of various State of Michigan surplus property.

**Financial Institutions Fund Transfer:** The budget agreement includes \$2.8 million of GF/GP revenue from the transfer of surplus Financial Institutions Fund revenue to the GF/GP budget.

**Interest Earning Tobacco Securitization:** The budget agreement includes \$15.0 million of interest earnings from tobacco securitization revenue not yet distributed for economic development projects in the State. This revenue is consistent with provisions of the 21<sup>st</sup> Century Jobs Fund proposal enacted into law in late calendar year 2005.

**Shift Short Term Borrowing Costs to School Aid Fund:** The budget agreement includes \$22.8 million of SAF revenue transferred to the GF/GP budget to have the SAF budget bear some of the cost of interfund cash flow borrowing that occurs on an annual basis to adjust for the timing of State revenue collections and the actual expenditure of State funds.

**Liquor Purchase Revolving Fund Transfer:** The budget agreement includes \$4.0 million of GF/GP revenue from the transfer of surplus revenue in the Liquor Purchasing Revolving Fund to the GF/GP budget.

**Consumer Finance Fees Transfer:** The budget agreement includes \$7.0 million of GF/GP revenue from the transfer of surplus consumer finance fees to the GF/GP budget.

**Liquor Licenses/Permits:** The budget agreement includes \$3.5 million of GF/GP revenue from changes in the structure of liquor licenses and permits. Legislation will have to be enacted to generate this new revenue source.

The overall level of FY 2006-07 GF/GP revenue equals \$9.22 billion which represents a \$107.6 million or a 1.1% increase from the projected level of FY 2005-06 GF/GP revenue. The overall level of FY 2006-07 SAF revenue equals \$13.09 billion which represents a \$299.4 million or a 2.3% increase from the projected level of FY 2005-06 SAF revenue.

**Table 1**  
**FY 2006-07 Budget**  
**General Fund/General Purpose**  
**Revenue, Expenditures and Year-End Balance**  
**(Millions of Dollars)**

	<b>June 29, 2006 Target Agreement</b>
<b>Revenue:</b>	
Beginning Balance .....	\$109.7
<b>Ongoing Revenue:</b>	
Revenue Estimate .....	8,435.4
Revenue Sharing Freeze .....	<u>585.0</u>
Subtotal Ongoing Revenue .....	9,020.4
<b>Recommended Revenue Adjustments:</b>	
Pharmaceutical Tax Credit Adjustment .....	10.0
Land Sales .....	28.0
Financial Institutions Fund Transfer to GF/GP .....	2.8
Interest Earning Tobacco Securitization .....	15.0
Shift Short Term Borrowing Costs to School Aid Fund .....	22.8
Liquor Purchase Revolving Fund Transfer to GF .....	4.0
Consumer Finance Fees Transfer to GF .....	7.0
Liquor Licenses/Penalties .....	<u>3.5</u>
Subtotal Recommended Revenue Adjustments .....	93.1
<b>Subtotal Consensus Revenue Items .....</b>	<b>\$9,223.2</b>
<b>Expenditures:</b>	
Target Appropriations .....	\$9,222.9
<b>Total Expenditures .....</b>	<b>\$9,222.9</b>
<b>Year-End Balance .....</b>	<b>\$ 0.3</b>

**Table 2**  
**FY 2006-07 Budget**  
**School Aid Fund**  
**Revenue, Expenditures and Year-End Balance**  
**(Millions of Dollars)**

	<b>June 29, 2006 Target Agreement</b>
<b>Revenue:</b>	
Beginning Balance .....	\$ 93.8
Consensus Revenue Estimate .....	11,552.4
GF/GP Grant .....	35.0
Federal Aid .....	1,412.7
<b>Total Revenue .....</b>	<b>\$13,093.9</b>
<b>Expenditures:</b>	
Target Appropriations .....	\$13,093.8
<b>Total Expenditures .....</b>	<b>\$13,093.8</b>
<b>Year-End Balance .....</b>	<b>\$ 0.1</b>

## Appropriation Targets

Table 3 provides a summary of the FY 2006-07 GF/GP appropriation targets contained in the budget agreement. The individual departmental appropriation bills will have to be developed utilizing these appropriation targets. The FY 2006-07 GF/GP appropriation targets equal \$9.22 billion. This level of GF/GP appropriations exceeds the year-to-date level of FY 2005-06 GF/GP appropriations by \$219.1 million or 2.4%. The School Aid Fund appropriation target of \$13.09 billion exceeds the year-to-date level of FY 2005-06 SAF appropriations by \$393.1 million or 3.1%. The highlights of the appropriation targets include the following:

<b>Table 3</b>	
<b>FY 2006-07 GF/GP Targets</b>	
<b>Department/Budget Area</b>	<b>FY 2006-07 Target</b>
Agriculture .....	\$30,913,300
Attorney General .....	32,896,000
Capital Outlay.....	2,200
Civil Rights .....	12,454,000
Civil Service .....	6,972,400
Community Colleges .....	289,879,400
Community Health.....	2,940,082,700
Corrections.....	1,858,555,000
Education .....	6,667,500
Environmental Quality .....	33,828,400
Executive .....	5,509,900
Higher Education.....	1,624,791,300
History, Arts, Libraries .....	43,175,200
Human Services .....	1,197,467,900
Information Technology.....	0
Judiciary .....	160,604,800
Labor & Economic Growth .....	47,436,700
Legislature .....	128,072,700
Management & Budget .....	268,409,600
Military & Veterans Affairs .....	40,640,200
Natural Resources .....	25,269,600
School Aid .....	35,000,000
State.....	19,132,700
State Police.....	249,298,700
Strategic Fund.....	32,009,200
Transportation .....	0
Treasury .....	133,857,800
<b>Total GF/GP Appropriations.....</b>	<b>\$9,222,927,200</b>

**Community Colleges:** The appropriation target provides for an overall increase of 3.0% for community college operations.

**Community Health:** The appropriation target includes funding Medicaid caseloads based on the consensus estimate of caseloads. The budget will not include provisions that reduce Medicaid eligibility for any Medicaid eligibility group.

**Higher Education:** The appropriation target provides for an overall increase of 3.0% for university operations. The tuition grant program will be funded at \$58.8 million, the amount equal to the FY 2005-06 funding.

**Human Services:** The appropriation target includes caseload funding based on the consensus estimate of caseloads. The budget agreement includes welfare reform as recommended by the Administration on June 13, 2006.

**School Aid:** The appropriation target includes a \$210 increase in the basic foundation allowance over the current year levels. A new declining enrollment categorical appropriation of \$20.0 million will be funded along with a new \$20.0 million categorical appropriation for a middle school mathematics program. The agreement also includes a \$20.0 million categorical payment for per pupil equity payments to local school districts with lower average basic foundation allowances.

**State Police:** The appropriation target includes \$2.5 million of funding to support a new trooper school to recruit, train, and hire new at-post troopers.

#### **FY 2005-06 Supplemental Appropriations**

The budget agreement also included the details of the components of a FY 2005-06 supplemental appropriation bill. The supplemental appropriations will total \$237.5 million of Gross appropriations. These Gross appropriations are funded from \$158.1 million of Federal funds, \$3.9 million of local funds, \$0.5 million of private funds, \$22.3 million of State restricted funds, and \$52.8 million of GF/GP funds. The supplemental appropriations fall into several broad categories. These include appropriations in the Departments of Community Health, Corrections, Human Services, Military and Veterans Affairs, and State Police to cover projected funding shortfalls; the appropriation of additional unanticipated Federal and State restricted funds in several budgets; appropriation adjustments to offset revenue shortfalls in tobacco settlement funds; final construction authorization for five construction projects funded from State Building Authority Fund; and funding to cover a revenue shortfall in the Department of State.

#### **Structure of Appropriation Bills**

During June 2006 the Senate and the House of Representatives approved different structures to implement the FY 2006-07 appropriation bills. The Senate passed the appropriation bills in the traditional departmental format and the House of Representatives rolled up all of the departmental appropriations into one bill with the exception of the appropriations for K-12 School Aid and Capital Outlay. The final FY 2006-07 appropriation bills will be structured as a combination of the methods originally utilized by the Senate and the House of Representatives. The Senate will be responsible for individual appropriation bills that normally would have initiated in the Senate. These Senate-originated bills will be in the traditional departmental format. The House of Representatives will be responsible for individual appropriation bills that normally would have initiated in the House. The House will roll these budget areas into a single omnibus appropriation bill. The appropriation bill for the K-12 School Aid budget will continue in the traditional format.

The following provides a listing of the FY 2006-07 appropriation bills that will be the primary responsibility of the Senate and the House of Representatives.

**Senate-Originated Bills**

Community Colleges  
Community Health  
Corrections  
Education  
Environmental Quality  
Higher Education  
Natural Resources  
School Aid

**House-Originated Bills**

Agriculture  
General Government  
History, Arts, and Libraries  
Human Services  
Judiciary  
Labor and Economic Growth  
Military and Veterans Affairs  
State Police  
Transportation

If you have any specific questions on the FY 2006-07 budget agreement, please call my office at 373-5300.

/kjh

c: Ellen Jeffries, Deputy Director  
SFA Fiscal Analysts